

Maricopa County Internal Audit Department

County Auditor's Annual Report



Fiscal Year 2002

To: Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

From: Ross L. Tate, County Auditor

Date: October 24, 2002

Executive Summary

This year brought significant change in the Nation, State, and County

Numerous companies experienced a financial downturn, as did the stock market and the local economy. The disturbing nature of some companies' fiscal disclosures prompted authorities to create new requirements that affect the field of auditing. Some of these are:

♦ *New York Stock Exchange:*

Requires each listed company to have an:

- Internal audit function
- Independent, minimum three person audit committee

♦ *Federal Sarbanes-Oxley Act of 2002:*

Requires listed companies to have:

- An audit committee on or before April 29, 2003
- Auditor independence
- Auditors report to audit committees

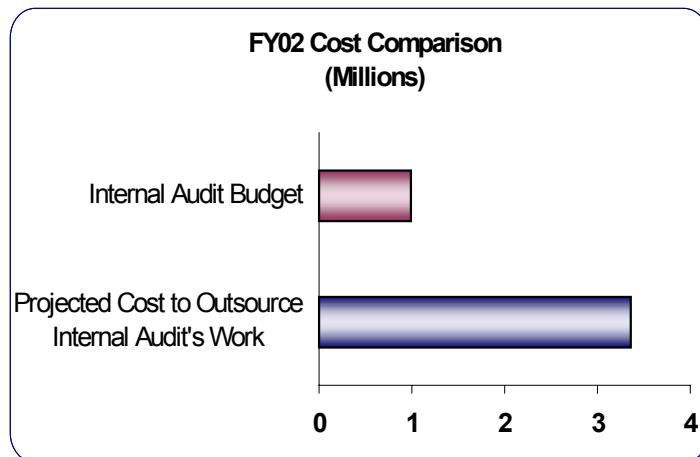
Maricopa County leaders had already recognized the value of internal controls like those listed above, and had wisely invested in an independent internal audit function. Our audit office is considered independent because we report directly to the Board of Supervisors. We also have an advisory reporting relationship to the Citizens Audit Advisory Committee, which the Board established in 1997.

Internal Auditors are a Good Investment

WorldCom internal auditors discovered billions of fraudulently reported profits. Although not all fraud is discovered by internal auditors, internal auditing is a good investment for fraud deterrence as well as operational improvements.

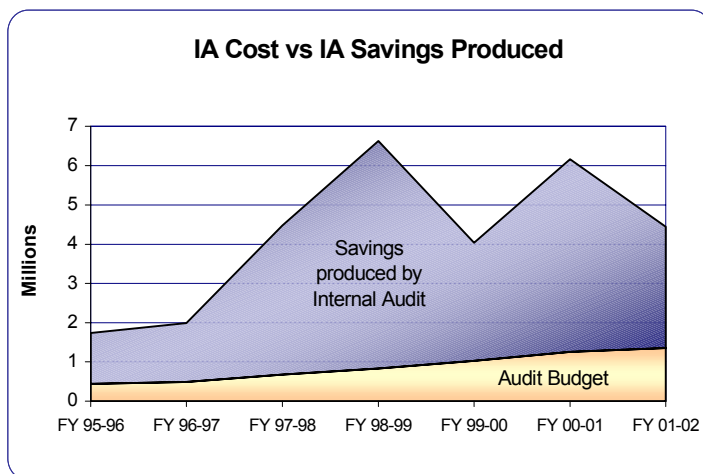
The presence of internal auditors can deter employees from committing fraud because of the perceived danger of getting caught. When one combines the cost savings from fraud and error detection by auditors with the deterrent effect, the value of auditing activities is even more evident.

Internal Audit Staff vs Outsourcing Costs



FY 2002 audit work would have cost the County three times as much if external resources had been used instead of internal audit staff.

The Return on Investment



Internal Audit's economic impact continues to exceed its cost by a large margin.

A well run internal audit function is an investment that benefits County management and citizens.

For details, please see pages 2 to 4.

Audit Received 3 Noted National Awards for Our FY02 Work



Don Stapley, Chairman of the Board of Supervisors, joins Internal Audit to celebrate winning three national awards in FY2002.

For details, please see pages iii & iv.

Organizational Independence

Internal Audit reports directly to the Board of Supervisors,
with an advisory reporting relationship to a
Citizen's Audit Advisory Committee.

Board of Supervisors



Fulton Brock
District I



Andrew Kunasek
District II



Don Stapley
District III



Max W. Wilson
District IV



Mary Rose Wilcox
District V

Citizen's Audit Advisory Committee (see photo at right)

Seated left to right:

Ralph Lamoreaux, District I Appointee
Marilyn Anderson, District III Appointee
Chairperson Jill J. Rissi, District II Appointee
Vincent Harder, District IV Appointee
Richard Lozar, District V Appointee

Standing left to right:

Tom Manos, County Chief Financial Officer
Dennis Levine, Office of the Auditor General
Ross L. Tate, County Auditor
William S. Knopf, Office of County Counsel

Citizen's Audit Advisory Committee



County Management

Internal Audit

Internal Audit

Management Services Team



Left to right: Eve Murillo, Richard Chard, John Schulz, Kimmie Wong

Performance Audit Team



Left to right: Christina Black, George Miller
Susan Huntley, Cathleen Galassi (not pictured)

County Auditor



Ross L. Tate

Office Manager



Joan Simpson

Financial Audit Team



Left to right: Joe Seratte, Patra Carroll, Lisa Lampaglia, Tom Fraser

Information Technology Team



Left to right: Sandy Chockey, Susan Adams

National Awards Received...

Internal Audit was recognized for achieving results as demonstrated by the following awards:



August 2002

2002 Achievement Award
National Association of Counties
 Performance Measure Certification Program

David Smith, CAO; Don Stapley, Board of Supervisors Chairman, IA Team

June 2002



GFOA Conference, Denver, CO

2002 Award of Excellence
Gov't Finance Officers Association
 Performance Measure Certification Program

May 2002



Nat'l Assoc. Conference, Lake Tahoe, NV

2001 Special Project Award
Nat'l Assoc. of Local Government Auditors
 Financial Condition Report



2001 Achievement Award
National Association of Counties
 Financial Condition Report



2001 Achievement Award
National Association of Counties
 "Got Controls" Management Bulletin



2000 Special Project Award
Nat'l Assoc. of Local Government Auditors
 Employees with Cash Handling Duties Workshop



2000 Achievement Award
National Association of Counties
 Employees with Cash Handling Duties Workshop

...For the Following Products...



Control Bulletins

Our one-page “Got Control” bulletins communicate important control issues to County executives, managers, and employees.

This product received an award:

- 🏆 National Association of Counties Achievement Award (2001)



Control Self Assessment

Control Self Assessment workshops help employees determine their department’s control weaknesses and risks. These workshops feature an entertaining video with top-level County management and elected officials demonstrating the right way (and the wrong way) to handle cash and monitor contracts.



This product received two awards:

- 🏆 National Association of Local Government Auditors Special Project Award (2000)
- 🏆 National Association of Counties Achievement Award (2000)

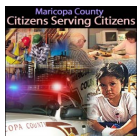


Financial Condition Report

We annually assess and report on Maricopa County's financial condition in a highly visual, user-friendly, annual Financial Condition Report. This report displays key financial trends and compares Maricopa's trends with those of 10 western US counties.

This product received two awards:

- 🏆 National Association of Local Government Auditors Special Project Award (2001)
- 🏆 National Association of Counties Achievement Award (2001)



Performance Measure Certification

We created and implemented the Performance Measure Certification program in response to Maricopa County’s recent adoption of a performance management system, Managing for Results. We review inputs, outputs, efficiency, and progress toward outcome goals.

We assign and report certification ratings to County leaders and top management.

This product received two awards:

- 🏆 Government Finance Officers Association Award for Excellence (2002)
- 🏆 National Association of Counties Achievement Award (2002)



Mission

Internal Audit's mission is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

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Performance Results

Programs

Internal Audit is Managing for Results (MfR) through two programs: Audit Services and Management Services.

Audit Services Program

Provides independent assessments and recommendations to the Board of Supervisors and County management so they can make informed decisions regarding County policies and operations.

Management Services Program

Provides consultation services, strategic information, and education to County officials and employees so that they can perform their jobs more effectively.



Key Performance Measures

Internal Audit (IA) has five key performance measures (with **FY02 results**):

Audit Services Program

- ♦ % of IA recommendations concurred with by clients: **99%**
- ♦ % of IA recommendations implemented within three years: **96%**

Management Services Program

- ♦ % satisfaction rating from customers indicating consulting services delivered by IA helped them do their job: **100%**
- ♦ % satisfaction rating from customers indicating educational efforts (newsletters, courses, etc.) help them do their job more effectively: **90%**
- ♦ % overall approval rating for Internal Audit's strategic information reports by Board of Supervisors and key County management: **98%**

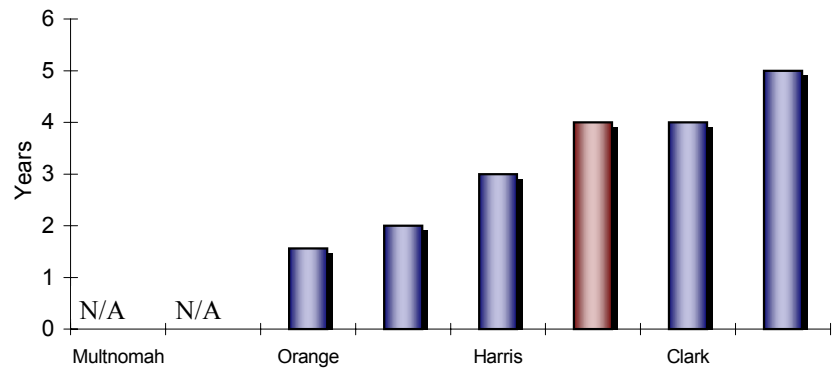
The following pages illustrate Internal Audit's results.

Audit Interval

The audit interval is the number of years between audits of individual departments. We believe that Maricopa's average audit interval should be no higher than four years.

High risk functions should be audited every three years and others at least every five years.

Average # of Years Between Audits

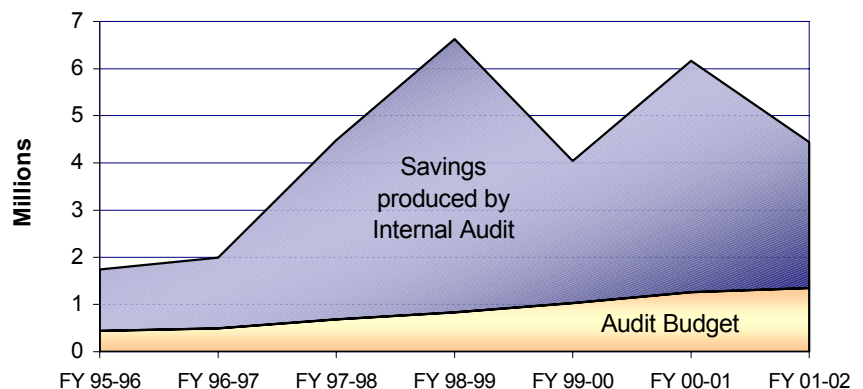


Economic Impact

Internal Audit's economic impact continues to exceed its cost by a large margin, as shown at right. A well run internal audit function is an investment that benefits County management and citizens.

See table on the next page for FY 2002 savings produced.

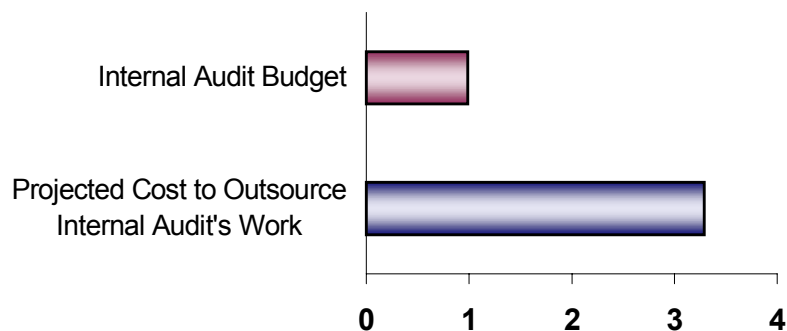
IA Cost vs IA Savings Produced



Our Cost vs. The Cost to Outsource Audit Function

FY 2002 audit work would have cost the County three times as much if external auditors had been used instead of internal audit staff.

**FY02 Cost Comparison
(Millions)**



FY02 Audits with Dollar Recovery and Cost Avoidance (CA)

The table below shows audit projects that resulted in recoveries, savings, cost avoidance, or other economic impact.

Audit	Impact	Description
Finance	\$ 984,000	Stale-dated warrants and other funds from clearing accounts were not transferred timely to the General Fund and some payment discounts were not taken.
Maricopa Long Term Care Program	462,512	Duplicate and overpaid claim payments.
Sheriff - Special Request	450,000	77 leased cars were returned to vendor (FY01).
Telecommunications	411,125	Under-reimbursed Cable TV franchise fees.
Countywide Expenditures (Vendor Payment Processing)	374,000	Annual savings could be achieved by instituting audit payment recommendations.
Human Resources	132,371	Uncollected Insurance premiums, overpaid contract billings, use of tape recorders.
PDS Contract - Special Request	121,502	Billing errors and overpayments.
Animal Care & Control	40,229	Overpaid for pharmaceutical supplies. Reduce metal tag costs by utilizing permanent tags.
MIHS Health Select	32,079	Erroneous claim and duplicate payments.
Periodical Subscriptions Contract	31,350	Invoice overbillings and excess charges.
Computer Training Contract	27,521	Invoice overbillings.
Justice Court MAS (Minimum Accounting Standards) Reviews	15,424	Open bonds from 1996 have not been turned over to the County Treasurer's Office.
Contract Counsel - Special Request	3,757	Unauthorized billings and overpayments.
Facilities	2,350	Overpayments & lost discounts.
Treasurer	2,200	Property taxes not accessed on 2 parcels.
Dollar Recovery & CA Total:		\$ 3,090,420

FY02 Audits with Potential Recovery and Cost Avoidance (CA)

The table below shows audit projects that resulted in potential recoveries and cost avoidance.

Audit	Impact	Description
Maricopa Long Term Care Program	\$ 1,642,357	Potential duplicate and overpaid claim errors.
Countywide Revenues (Sales Tax Revenue Sharing)	1,050,000	The State could use recent property tax valuations to calculate the County's share of sales tax revenues.
Financial Condition Report Executive Edition FY01	1,000,000	Audit analysis contributed to the termination of a major Hospital management contract.
Potential Recovery & CA Total: \$ 3,692,357		

Other Significant Economic Impacts

Internal Audit's work is not always measurable; for example, improved internal controls may result in cost savings. We also work on high impact projects that are not quantifiable. Here are some audit projects that contributed to positive changes or positive results for the County.

◆ Financial Condition Report

The County Administrative Officer refers to the Financial Condition Report frequently. One result was a \$34 million adjustment to reported Medical Center Fund Equity.

◆ MIHS Cash Analysis

Our Advisory Memos alerted top management and the Board of Supervisors on Maricopa Integrated Health System's (MIHS) deteriorating cash position. As a result, management implemented an action plan to alleviate further deterioration (including delaying capital expansion and terminating the Hospital management contract).

◆ Governmental Accounting Standards Board (GASB) Visit

In June, we were honored to have GASB's Research Director and his staff visit us to discuss performance measurement and Service Efforts & Accomplishments reporting criteria for GASB's proposed standards. GASB is the highest authority for setting governmental accounting standards in the United States. As a result of their visit, GASB staff created links on their website to our website and our Performance Measure Certification report (www.gasb.org).

◆ Performance Measurement Certification National Recognition

Since the Government Finance Officer's Association (GFOA) announced Maricopa County Internal Audit as one of their four winners of the 2002 Award for Excellence in Government Finance, we have received dozens of requests from entities in 15 different states for detailed information about our Performance Measure Certification Program.

What Did Our Customers Say?

Quotes below are taken from FY 2002 customer surveys:

"In 40 years of public service, this was the most collegial and beneficial audit experience I've had. Good audit on a complex dept with many transactional processes."

"This report is excellent. Kudos to the project team. A great tool to use with the public, as well."

"I have participated in quite a few audits during the course of my career. This is one of the smoothest I've ever participated in."



"Very useful to management overall. I appreciate the work that goes into this report. Fine job. Thank you."

"The information that I've received from Internal Audit has been critical to our strategy & budget approach with that department. Thank you."

"Thank you so much for your help on this. The auditors were great — prompt, efficient, friendly, & helpful. This is a very large worry off my mind! Thanks again."

The Maricopa County Management Team reported they were 97% satisfied with Internal Audit's mission fulfillment.

— Maricopa County Research & Reporting, FY02

"The auditors were great to work with! We have already implemented many of the report's recommended changes. I really appreciate Internal Audit's help with this difficult issue. Your staff did a great job—very professional."

"The auditor did an excellent job of explaining the audit and audit process at our initial meeting and kept us informed during the entire process."



"As with all of my experience with Internal Audit, this was a positive and productive experience. I appreciate everyone's cooperation."

Peer Feedback:

"Your report has been the inspiration for our work and it is progressing quite well."

— Salt Lake County Internal Audit

Information Technology (IT) Auditing

The use of Information Technology (IT) throughout the County can increase productivity but can also increase the risk of unauthorized changes, data destruction, errors, unauthorized access to confidential data, downtime, and fraud. Because of these risks, we developed an IT audit function staffed by dedicated, experienced IT auditors who perform the following activities:



Continuous Monitoring

IT audit staff continuously monitors certain types of County expenditures to ensure that County resources are used appropriately. These monitoring efforts focus on high-risk areas, such as routinely checking vendor payments. If resources are available, this function will be expanded to use fraud detection software to monitor and assess p-card (credit card) payments.



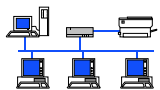
IT General Controls and Application Audits

IT General Controls and Application audits focus on reviewing the adequacy of each department's computer system controls to ensure County data integrity, confidentiality, and availability. Audit examples are: payroll application, financial application, and data center operations.



Virus Detection / Vulnerability Assessments

Viruses and other types of computer attacks can be a serious threat to County data. The County can deter these dangerous attacks by using aggressive virus protection systems and appropriate security measures. IT audit staff regularly reviews computer virus detection efforts and system vulnerability to ensure that proper controls are in place to reduce the risk of attack.



System Development Assessments

We encourage County departments to use approved systems development methodologies when they develop new systems or enhance existing systems. These methodologies include: reviewing project management controls, logical access controls, test and training controls, and project implementation controls. IT audit staff is currently involved with monitoring the Integrated Criminal Justice Information System (ICJIS) development project.



Web Page Management

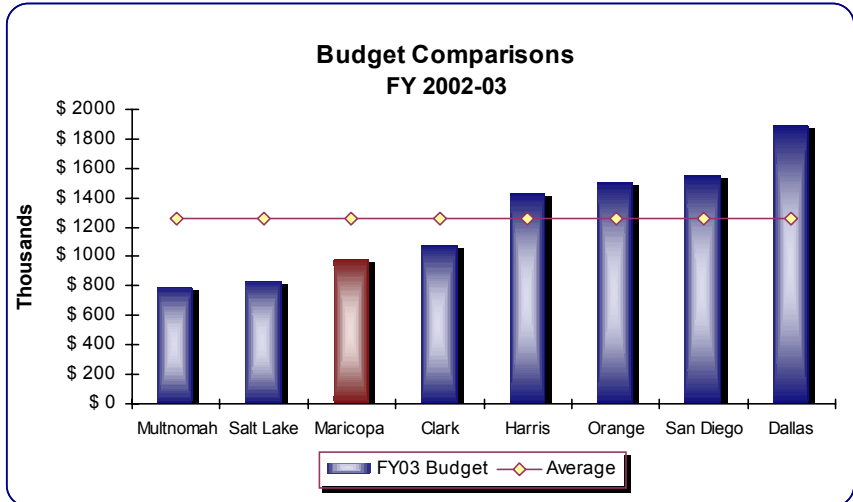
We designed our Internal Audit web page to provide useful information to County management, employees, citizens and peers. Our website contains copies of our reports plus some tools we use for effective auditing.

Inputs / Resources

Budget

The County's internal audit costs remains low compared to benchmark counties.

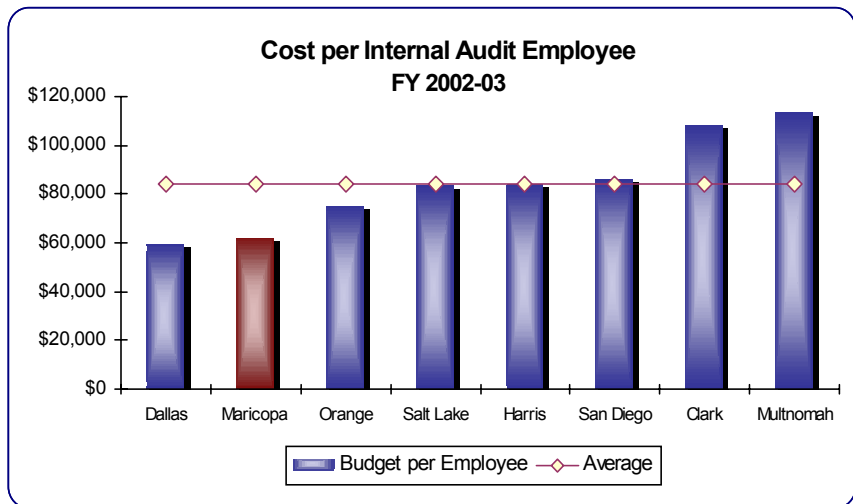
For the past five years, Internal Audit has completed its Board-approved annual audit plan within budget. Since 1996, Internal Audit has received funding to use outside contractors when specialized expertise is needed. In FY 2002, we received \$370,000 for this co-sourcing.



Cost Per Audit Employee

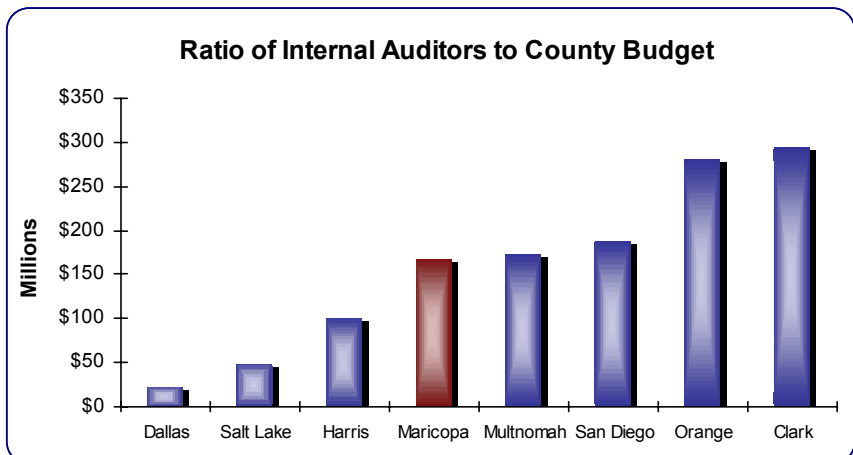
Our investment (cost) per audit staff member is low compared to our benchmark counties.

Internal Audit has produced good results with minimal resources (we invest less in our staff than our benchmark counties). Additional resources would enable us to produce even more in dollar savings and to earn more recognition for the County.



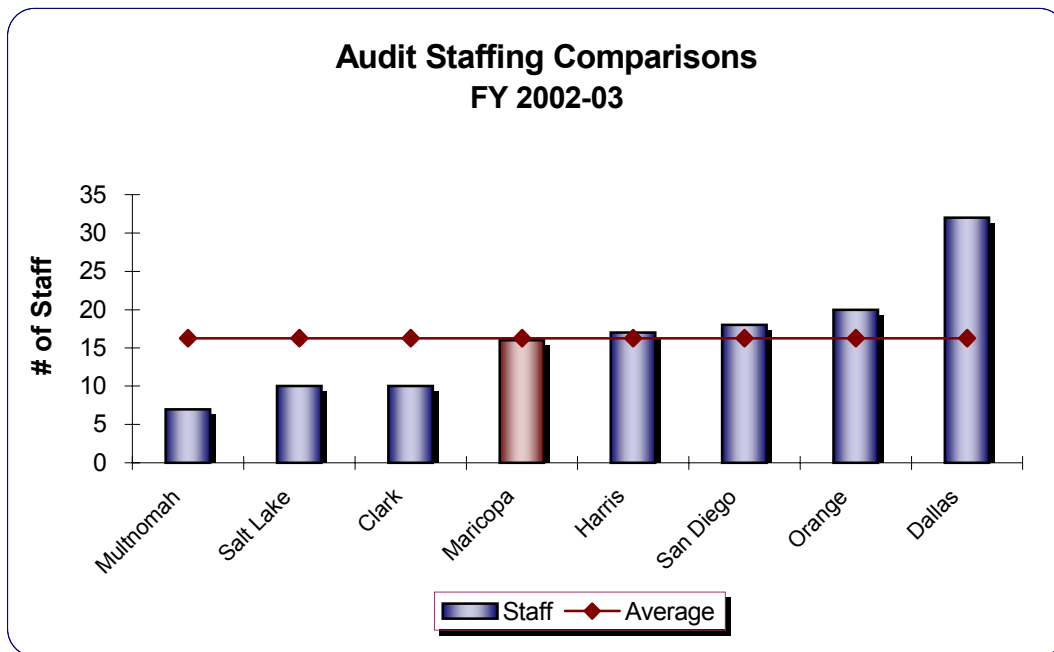
Ratio of Internal Auditors to County Budget

This ratio represents each benchmark's audit coverage within their county. The smaller the bar graph is, the better coverage the County receives from their Internal Audit function.



Staff Size

Internal Audit's staff size is average compared to our benchmark counties.



Outputs

Internal Audit's FY 2002 outputs consist of the number of audit reports issued, consultations provided, educational classes taught, and strategic information reports issued:

Audit Services Program:	31
Management Services Program:	
Consultation Activity	6
Education Activity	9
Strategic Information & Reporting Activity	10
TOTAL:	56

For a list of FY2002 projects, please see Appendix B, C, and D.

Note: Figures are based on the Annual Audit Plan and may not correspond to MfR reported data.

Vision

Internal Audit's vision is to facilitate positive change throughout County operations while ensuring that public resources are used for their intended purpose.

Appendices



Appendix A: Professional Staff Biographies

Internal Audit employed the following individuals during FY 2000-2001.



Ross L. Tate, County Auditor

Mr. Tate is a Certified Internal Auditor, Certified Management Accountant, and Certified Government Financial Manager. He has a bachelor's degree from Brigham Young University in Business Operations & Systems Analysis and 16 years of professional internal auditing experience. Mr. Tate is an active member of the Institute of Internal Auditor's Phoenix Chapter and of the Arizona Local Government Auditor's Association.



George Miller, Audit Manager - Performance Audit Services

Mr. Miller has 20 years of county government internal auditing experience and is a Certified Government Financial Manager. He has a Bachelor's degree in Business Administration from Michigan State University and an MBA Degree from Western Michigan University. He was the 2000 President of the Arizona Local Government Auditor's Association. He also serves as Vice Chairman of the County's Deferred Compensation Committee.



Sandy M. Chockey, Audit Manager - Information Technology

Mrs. Chockey is a Certified Information Systems Auditor. She has a degree in Business Administration and over 19 years of professional information systems auditing experience. Mrs. Chockey has served as past Vice President, Treasurer, and Board Member of the local Information Systems Audit and Control Association. She is also a member of the Arizona Local Government Auditor's Association.



D. Eve Murillo, Audit Manager - Management Services

Ms. Murillo is a Certified Public Accountant and a Certified Fraud Examiner. She has a bachelor's degree in Liberal Arts from the University of Illinois, a Masters in Business Administration from Florida Institute of Technology, and 13 years of accounting and internal auditing experience. Ms. Murillo is a member of the Arizona Chapter of the Association of Certified Fraud Examiners, Arizona Local Government Auditor's Association, and the Institute of Internal Auditors.



Joe M. Seratte, Audit Manager - Finance Audit Services

Mr. Seratte is a Certified Public Accountant, Certified Internal Auditor, and certified in Control Self-Assessment. He holds an Accounting degree from Oklahoma State University and a Master's degree from the American Graduate School of International Management (Thunderbird). He has 20 years experience in auditing, finance and accounting and is a member of the American Institute of Certified Public Accountants and the Institute of Internal Auditors.



Richard L. Chard, Senior Auditor

Mr. Chard is a Certified Public Accountant and has a degree in History from the University of Redlands and postgraduate work in accounting and public administration through Arizona State University and Western International University. Before joining Internal Audit six years ago, he worked five years in Maricopa County's Department of Finance and Health Systems Finance. He recently served as a Division Governor for Toastmasters International and is currently its audit committee chairman.



John Schulz, Senior Auditor

Mr. Schulz has 24 years of experience in program evaluation, budgeting and financial administration within healthcare, law enforcement and government. He holds a degree in Government from University of Maryland and a Masters of Public Administration from Arizona State University. He is a member of the Institute of Internal Auditors, Arizona Local Government Auditors Association and the Association of Certified Fraud Examiners.

Cathleen L. Galassi - Senior Auditor

Ms. Galassi has a bachelor's degree in Philosophy from Loyola Marymount University, California, and post-graduate work in organizational psychology. She has 16 years of internal audit experience, including audit management at financial institutions, and 10 years of accounting and budgeting at non-profit institutions. Ms. Galassi's experience includes participation on merger and acquisition teams and system conversion projects. Ms. Galassi is a member of The Institute of Internal Auditors.



Susan Adams, Senior Auditor - Information Technology

Ms. Adams has a bachelor's degree in Accounting from Utah State University and an MBA from the University of Utah. She has ten years professional experience in accounting and audit with 4 years as an Information Systems auditor. She is a member of the Information Systems Audit and Control Association's Phoenix Chapter and the Arizona Local Government Auditor's Association.



Thomas L. Fraser, Associate Auditor

Mr. Fraser is a Certified Fraud Examiner who holds degrees in Business Administration and Business Management. He has ten years of accounting and internal audit experience. Mr. Fraser is a member of the Institute of Internal Auditors, the Association of Certified Fraud Examiners and the Arizona Local Government Auditor's Association, where he serves as Vice President and Treasurer.



Susan Huntley, Associate Auditor

Ms. Huntley has a bachelor's degree in Psychology and a Masters in Public Administration from the University of North Florida. Ms. Huntley has 21 years of professional experience which includes quality assurance, auditing, systems implementation and design. Ms. Huntley is a member of the Arizona Local Government Auditor's Association and the National Institute for Government Procurement.



Kimmie Wong, Associate Auditor

Ms. Wong has a bachelor's degree in Business Administrative Services from Arizona State University. She has over 7 years of experience reviewing grant audits and 6 years of professional internal auditing experience. She is working towards a Masters of Public Administration degree. Ms. Wong is a member of the Arizona Local Government Auditor's Association and the Association of Certified Fraud Examiners' Arizona Chapter.



Christina Black, Associate Auditor

Ms. Black has a bachelor's degree in Accounting from Missouri Western State College. She has 6 years of professional internal audit experience and 10 years of accounting and revenue auditing experience. Ms. Black is a member of the Arizona Chapter of the Association of Certified Fraud Examiners, Arizona Local Government Auditor's Association, and the Institute of Internal Auditor's Phoenix Chapter, where she serves as Chair on the Awards Committee.



Patra E. Carroll, Associate Auditor

Ms. Carroll is a Certified Public Accountant candidate with over 7 years of financial, performance, compliance, and tax auditing experience within both state and county governmental entities. She has a bachelor's degree in Accounting from Arizona State University and is a member of the Arizona Local Government Auditor's Association and American Society of Public Administrators.



Lisa Iampaglia, Staff Auditor



















Ms. Iampaglia has a bachelor's degree in Accounting from Arizona State University West. She has 4 years of professional experience in accounting and business. Ms. Iampaglia is a member of the Arizona Local Government Auditor's Association.



Joan Simpson, Office Manager

Ms. Simpson has a bachelor's degree in Social Science with a major in Political Science from Milton Keynes University in the United Kingdom. She has 21 years of professional administrative experience in both the private sector and in government. She also has developed her technical skills in the use of software programs to further enhance her productivity within the office.

Internal Audit staff members participate in many professional and service organizations:

-  American Institute of Certified Public Accountants (AICPA)
-  American Society for Public Administration (ASPA)
-  Arizona Local Government Auditors Association (ALGAA)
-  Arizona Chapter of the Association of Certified Fraud Examiners (CFE)
-  Arizona Chapter of the American Society for Public Administration (ASPA)
-  Arizona Management Society
-  Association of Government Accountants (AGA)
-  Government Finance Officers Association (GFOA)
-  Information Systems Audit and Control Association (ISACA)
-  Institute of Internal Auditors (IIA)
-  Institute of Management Accountants (IMA)
-  Maricopa County Adjunct Faculty
-  Maricopa County Blood Drive
-  Maricopa County Deferred Compensation Committee
-  National Association of Certified Fraud Examiners (CFE)
-  National Association of Local Government Auditors (NALGA)
-  National Institute for Government Procurement
-  Toastmasters International

Please see Appendix E for Internal Audit's educational requirements (page 38).

Appendix B: Project Summaries

Report Title	Page	Report Title	Page
♦ Animal Care & Control	16	♦ Justice Court Services	24
♦ Contract: Computer Training	16	♦ Juvenile Probation	25
♦ Contract: Employee Benefits <i>Special Request</i>	17	♦ Legal Advocate <i>Special Request</i>	25
♦ Contract: Periodical Subscriptions	17	♦ MIHS Contracts: Area Agency on Aging & Gila County IGA	26
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♦ General Government	22	♦ Star Call Center	31
♦ Housing ~ <i>Special Request</i>	23	♦ Telecommunications	31
♦ Human Resources	23	♦ Treasurer	32
♦ Justice Courts Accounting Review	24		



Animal Care & Control ~ January 2002

Animal Care and Control Department (AC&C) is charged with ensuring the safety of citizens and animals against loose, vicious, and unwanted animals.

AC&C services include: enforcing leash laws and other animal control ordinances, issuing dog licenses, issuing kennel permits, promoting animal adoptions or providing humane disposition of unwanted stray animals, returning animals to owners, investigating animal inflicted injuries, capturing and impounding stray animals, and vaccinating dogs and cats.

Summary Data

- # of Accepted Recommendations: 18 of 18
- Impact: \$40,229; improved cash and donation accountability and system security.
- Cost of Audit: \$68,472

Significant Issues

- AC&C does not effectively manage certain cash and in-kind donations. By failing to establish records, management cannot ensure donations are used only for authorized purposes.
- AC&C does not employ effective controls over cash receipts. Weaknesses include untimely deposits, inadequate physical security, and failure to track cash variances.
- Enhancements to the Licensing process could cut costs, improve customer service, and reduce the current backlog.



Contract: Computer Training ~ March 2002

Maricopa County's Computer Training Contract was established in May 1997. The agreement provides County employees with computer based software training on word processing, spreadsheet, database, graphics, operating systems, and Web

browser applications. Introductory, intermediate, and advanced level classes are available. Two vendors (Training A La Carte and New Horizons) are authorized to provide the training services.

Summary Data

- # of Accepted Recommendations: 6 of 6
- Impact: \$27,521; improved monitoring over performance and billings (dept. will also review all previous billings to identify and recover other overcharges); contract will not be renewed.
- Cost of Audit: \$6,021

Significant Issues

- County departments do not adequately monitor the contractors' performance and compliance with contract provisions.
- County users do not inform the Materials Management Department contractor service issues.
- One contractor appears to be billing 31 percent more than the amount authorized by the contract.



Contract: Employee Benefits Special Request ~ September 2001

The Employee Benefits Administration Application Hosting contract allows the contractor to process employee benefits for a monthly fee. The project is currently in the implementation phase, and overall, is nearing completion. The Board of Supervisors recently approved an increase in the contract amount from \$450,000 to \$630,097.

Summary Data

- # of Accepted Recommendations: 1 of 1
- Impact: \$121,502; improved contract monitoring and recovery of overcharges.
- Cost of Audit: \$8,910

Significant Issues

The County:

- Paid vendor \$176,225 for system interface work; 31% more than the authorized contract amount of \$134,710. In addition, the County has been billed, but has not paid, an additional \$12,754 for system interface work. This represents a 40% increase over the authorized contract amount.
- Paid duplicate billings totaling \$25,778.
- Overpaid \$4,000 on an invoice.



Contract: Periodical Subscriptions ~ February 2002

Since 1998, Maricopa County has contracted with a vendor to provide subscription services for journals, magazines, periodicals and other materials. The agreement minimizes the County's direct contact with numerous publishers.

The Board of Supervisors approved the original \$817,000 three-year contract with two one-year renewal options. The contract expenditure limit does not include Maricopa County Community College District purchases.

Summary Data

- # of Accepted Recommendations: 9 of 9
- Impact: \$31,350; improved contract monitoring; contract will be canceled for most departments.
- Cost of Audit: \$10,044

Significant Issues

- The County is overpaying the contractor primarily because user departments do not have access to subscription price lists, which are required to verify the accuracy of billing invoices.
- County departments do not adequately monitor the contractor's performance and compliance with contract provisions and also do not inform the Materials Management Department of issues relating to the contractor's service.





Contract Counsel Special Request ~ May 2002

This limited-scope review was requested by the Office of Contract Counsel (OCC) Contract Administrator, who expressed concern that a contracted investigator had submitted excessive and inappropriate billings relating to a

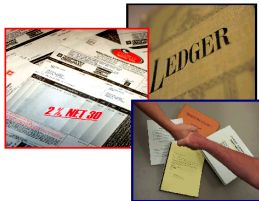
specific case.

Summary Data

- # of Accepted Recommendations: 3 of 3
- Impact: \$3,757; improved contract monitoring over performance and billings.
- Cost of Audit: \$2,160

Significant Issues

- Exceptions to Contract Compliance Requirements: The investigator utilized two associates (subcontractors) without obtaining prior approval from the Contract Administrator, as required by the contract.
- Inappropriate Billings: Four days (10.1 hours billed) that the investigator's associate claims to have visited the client in jail are not confirmed by Madison Street Jail visitation records.
- Excessive Billings: Madison Street Jail visitation records do not support the investigator's billings for 19 of the days (\$972) that the investigator claims to have visited OCC's client at the jail.



Countywide Expenditures (Vendor Payment Processing) ~ June 2002

Non-payroll expenditures account for over \$500 million annually. These expenditures are made through many different departments throughout the

County. However, all disbursements pass through the Accounts Payable function of the Department of Finance each year. During this initial audit of the County's expenditure cycle, we decided to review the vendor payment process for the County. The review considered the entire payment cycle including Materials Management, DOF, and all user departments.

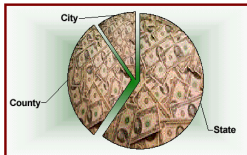
Summary Data

- # of Accepted Recommendations: 7 of 7
- Impact: \$374,000; identified two new facilitated workshop opportunities.
- Cost of Audit: \$24,655

Significant Issues

- The County could realize an estimated \$374,000 annually through enhancements to the vendor payment process.
- County departments could improve controls with additional training in vendor payment processing.
- No exceptions were found in testing for high-risk vendor payments or inappropriate vendors.





Countywide Revenues (Sales Tax Revenue Sharing) ~ July 2002

Maricopa County General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds revenues were reported in the Fiscal Year (FY) 2000-01 Comprehensive Annual Financial Report at approximately \$1.3 billion. The County's largest revenue source is Intergovernmental Revenue, which comprises 46 percent of the total. The largest portion of this revenue is sales tax.

Summary Data

- # of Accepted Recommendations: 2 of 2
- Impact: \$1,050,000; identified opportunities to increase reporting compliance.
- Cost of Audit: \$14,540

Significant Issues

- The County's FY 2000-01 sales tax distribution from Arizona Department of Revenue would have increased by approximately \$1 million, if they had used the most current property tax valuations.
- The Department of Finance does not receive the information necessary to fully reconcile Maricopa's monthly sales tax distribution.
- The County could potentially increase sales tax revenue through activities in conjunction with the Arizona Department of Revenue's present audit measures.



Criminal Justice Facilities Development (CJFDD) ~ June 2002

Maricopa County voters approved Propositions 400 and 401 in November 1998. These propositions authorized a \$0.002 excise tax to be used by the County to design, construct, and operate new jail facilities. The Jail Tax, which began January 1, 1999, remains in effect for nine years or until \$900 million is collected. Besides being used to build new adult and juvenile detention facilities, the Jail Tax funds programs aimed at reducing the County's overall jail population.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: Assurance that the department is effectively administering construction contracts in accordance with all applicable legal requirements.
- Cost of Audit: \$6,402

Significant Issues

- CJFDD utilizes Jail Construction Fund revenues only for the purposes authorized by Proposition 400, in full compliance with the Maricopa County Procurement Code and contract provisions.
- CJFDD makes necessary construction contract change orders in accordance with the requirements established by the Procurement Code and the Board of Supervisors.



Elections ~ April 2002

The Maricopa County Board of Supervisors passed a resolution in 1955 creating the Elections Department. Elections' mission is to provide access to the electoral process for citizens, jurisdictions, candidates, the legislature, and special interest groups so that they have equal access and may readily participate in elections.

Summary Data

- # of Accepted Recommendations: 2 of 2
- Impact: Improved controls over development of Intergovernmental Agreements with other agencies and special districts and development of written procedures.
- Cost of Audit: \$32,319

Significant Issues

- Elections administers Intergovernmental Agreements in overall compliance with Arizona Revised Statutes and County policy requirements.
- Elections procures contracts in compliance with statutory and Maricopa County Procurement Code requirements.
- Maricopa County's voter registration rate is 55.6 percent, which is lower than six benchmark western U.S. counties (59.1% to 89%).
- Elections has established adequate general controls over the physical security, user access, program changes, and disaster recovery planning of its information systems.



Facilities ~ December 2001

The Board of Supervisors established the Building and Grounds Department in 1971 to serve as its agent for constructing and maintaining County facilities. Today the department is called the Facilities Management Department (FMD).

Summary Data

- # of Accepted Recommendations: 24 of 24
- Impact: \$2,350; improved controls over CIP and major maintenance projects, construction contracts, change orders, information systems, parts and supplies inventories, Article 3 contract management, building security systems, and facility leasing activities.
- Cost of Audit: \$53,721

Significant Issues

- FMD's small construction projects and parts inventory had system control weaknesses and reporting inaccuracies.
- FMD does not adequately monitor revenue generating food contracts to ensure that vendors comply with all terms and conditions. Some control weaknesses relating to the Materials Management Department were also identified.
- Our testing of FMD's building badge access system identified security control weaknesses.





Finance ~ April 2002

The Department of Finance (DOF) oversees, reports, processes, and analyzes County financial transactions. DOF provides services to all County departments and various external users. The Board of Supervisors appointed the first County

Finance Director in January 1953 to coordinate all financing operations and report through the County Manager to the Board.

Summary Data

- # of Accepted Recommendations: 1 of 1
- Impact: \$984,000
- Cost of Audit: \$41,175

Significant Issues

- Two County clearing funds (Fund 746 and 767) hold an estimated \$884,540 in stale dated warrants and other funds that could be transferred to the County General Fund.
- Prompt payment discounts offered by County vendors are not consistently captured. This is primarily because County departments do not deliver payment voucher packets to Accounts Payable in time to earn the discounts. In an expenditure sample tested, 16% (\$4,600) of the available prompt payment discounts were not captured.



Financial Condition Report, Executive Edition FY01 ~ February 2002

The annual Financial Condition Report helps the Board of Supervisors to annually gauge the fiscal health of the County, avoiding the situation that occurred in the early 1990's when the County's fiscal health deteriorated unnoticed until a crisis stage developed. This "fiscal watchdog" report provides important information on County financial conditions and trends over the past five to ten years.

Summary Data

- # of Accepted Recommendations: N/A, Informative report
- Impact: The report contributed to the cancellation of a major contract (\$1 million).
- Cost of Audit: \$18,873

Significant Issues

The FY01 Financial Condition report enabled detection of the County Hospital's deteriorating cash position and prompted Internal Audit Advisory Memos to top management and the Board of Supervisors. As a result, management is taking steps to alleviate further deterioration that could lead to General Fund subsidies to the Hospital.

Overall, the County's financial condition and trends were favorable through the end of fiscal year 2001.





Financial Condition Report, Benchmark Edition FY01 ~ May 2002

The Benchmark Edition includes financial comparisons to similar counties and other analysis. A comparison to benchmarks broadens our perspective.

We are pleased to note that Internal Audit's annual Financial Condition Report is now the recipient of two national awards (National Association of Counties and National Association of Local Government Auditors).

Summary Data

- # of Accepted Recommendations: N/A, Informative report
- Impact: Information and risk prevention.
- Cost of Audit: \$45,900

Significant Issues

Overall, we found that our fiscal health compares favorably to the benchmark counties.

A special section of this report analyzes the important issue of health system net income and liquidity as portrayed in County financial statements.



General Government ~ July 2002

General Government is a financial reporting agency under the Deputy County Administrator. The Office of Management and Budget administers the agency's budget, which consists of revenues and expenditures that do not support a specific department or program but generally benefit the County as a whole.

Summary Data

- # of Accepted Recommendations: 1 of 1
- Impact: Clarification of general government policy.
- Cost of Audit: \$12,717

Significant Issues

- Our review of \$94.8 million of FY 2001-02 General Government expenditures found no significant exceptions to County policy requirements.
- Our survey of eight comparable local governments found that all utilize a General Government or similar cost-reporting category.





Housing Special Request ~ August 2001

This was a limited-scope review, requested by the County's Chief Community Services Officer. Housing Department staff discovered that a member of their Financial Administration had allegedly misdirected funds belonging to a national professional development organization. The Chief Community Services Officer and Housing Department management were concerned that County funds may also have been abused.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: Improved controls over travel expenditure approvals and documentation.
- Cost of Audit: \$1,935

Significant Issues

Overall, we found nothing to indicate that Housing Department funds have been misdirected or improperly utilized.



Human Resources ~ July 2002

Human Resources responsibilities include staffing, training and development, payroll and records, Merit Commission and grievance processing, disability leaves, employee programs, and customer services.

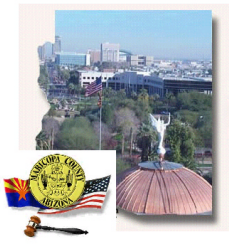
Summary Data

- # of Accepted Recommendations: 34 of 34
- Impact: \$132,371; stronger financial and inventory controls; improved IT controls; improved legal compliance and contract monitoring; more efficient personnel agenda processing.
- Cost of Audit: \$76,896

Significant Issues

- \$65,000 due annually to the County from employees on Leaves of Absence is not collected. Another \$12,000 due from the Arizona State Retirement System for retirees' health insurance premiums has not been paid.
- Financial controls over the Mariflex Plan are not adequate; we found a \$140,000 reporting discrepancy and \$12,000 of non-reimbursed payments.
- Total Compensation has not developed procedures to effectively monitor Short Term Disability cases and ensure that billed charges are accurate. Control weaknesses have resulted in contractor overpayments and reporting errors.
- Several Human Resources and Total Compensation processes are performed manually and need to be automated; others utilize outdated applications.





Justice Courts Accounting Review ~ May 2002

The Minimum Accounting Standards (MAS) review is an agreed-upon procedures engagement. An independent accountant performs standard audit procedures set forth by the Administrative Office of the Arizona Supreme Court (AOC). The purpose of the engagement is to ensure that Maricopa County courts maintain effective internal control procedures over financial accounting and reporting systems.

The Arizona Auditor General Office informed the courts in 1998 that its office would no longer be responsible for performing MAS reviews at the County level. This function was transferred to the Maricopa County Internal Audit Department beginning in FY 1998-99.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: \$15,424; compliance with Minimum Accounting Standards.
- Cost of Audit: \$21,398

Significant Issues

Our examination of the seven Justice Courts' financial procedures and practices shows that all comply with most MAS requirements, as adopted by the AOC. However, we found some exceptions to the MAS Compliance Checklist during our reviews.



Justice Court Services ~ April 2002

Maricopa County Justice Courts Services (JCS) was established by a Superior Court Administrative Order in 1987. The office serves to administer Justice Courts' non-judicial functions.

Summary Data

- # of Accepted Recommendations: 6 of 6
- Impact: Improved security and availability of Justice Court systems and data.
- Cost of Audit: \$44,712

Significant Issues

- Justice court generated revenue apportionment formulas established and utilized by JCS comply with statutory mandates and Arizona Supreme Court requirements.
- The effectiveness of the JCS fines management program could be improved through training and consistency. Fines managers utilize differing methods to manage receivables and do not take advantage of all tools available.
- Our analysis of the JCS contracted external collection program found no significant exceptions and showed that the collection performance among the two agencies is comparable.
- Control weaknesses exist that may allow unauthorized program changes to Court systems. The programmer who maintains the system has no backup.



Juvenile Probation ~ March 2002

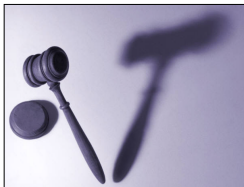
The Maricopa County Juvenile Probation Department (JPD) is part of the Juvenile Court, which is a branch of the Superior Court of Arizona. JPD's mission is "... to provide information, services, and programs to county residents so they can resolve problems associated with juvenile crime."

Summary Data

- # of Accepted Recommendations: 3 of 3
- Impact: Improved security, integrity, and availability of data and application programs.
- Cost of Audit: \$12,312

Significant Issues

- JPD has not adequately segregated programming and administration duties for its automated Juvenile On-Line Tracking System. This control weakness increases the risk for processing erroneous or fraudulent transactions, implementing improper program changes, and damaging computer resources.
- JPD's information systems disaster recovery plan is incomplete and outdated, which increases the risk that JPD may not be able to timely recover systems in the event of an extended outage or disaster situation.



Legal Advocate Special Request ~ April 2002

This was a limited-scope review requested by the County's Office of Legal Advocate (OLA). Our procedures were limited to determining whether OLA's controls over purchasing and payables are adequate to ensure compliance with

County policy and the protection of County assets.

Summary Data

- # of Accepted Recommendations: 1 of 1
- Impact: Improved authorization controls over payments.
- Cost of Audit: \$1,890

Significant Issues

After reviewing supporting documentation for 93% of FY02 payments made, we found no significant exceptions. We did, however, find one control weakness in the payment authorization process: invoices lacked evidence of authorization. The Legal Advocate is taking steps to correct this situation.





MIHS Contracts: Area Agency on Aging & Gila County Intergovernmental Agreement ~ March 2002

We reviewed two Maricopa Integrated Health System (MIHS) contracts: an Adult Day Care services contract with the Area Agency on Aging and an intergovernmental agreement (IGA) with Gila County.

Summary Data

- # of Accepted Recommendations: 5 of 5
- Impact: Improved contract monitoring over performance and billings; improved revenue tracking; development of written procedures for contract monitoring.
- Cost of Audit: \$10,368

Significant Issues

Overall, we found that the parties contracting and subcontracting with MIHS comply with the terms of the agreements. However, we found that MIHS' internal controls over these contracts are weak.

- MIHS mistakenly charged to the wrong contract five (29%) out of seventeen claims.
- MIHS does not adequately track billings and payments received pursuant to the Gila County IGA.
- MIHS does not adequately monitor the two contractors for contract compliance.



MIHS Health Select Plan ~ July 2002

HealthSelect is a health plan operated by the Maricopa Integrated Health System, a division of Maricopa County Government. Expressly designed for eligible Maricopa County employees, dependents, and retirees, this plan is, in effect, a Health Maintenance Organization (HMO). An HMO is an organization that contracts with medical facilities, physicians, and employers to provide medical care to a group of individuals. An employer usually pays for this care at a fixed price per patient. Employees may be required to contribute premiums, but generally do not have significant "out-of-pocket" expenses.

Summary Data

- # of Accepted Recommendations: 9 of 9
- Impact: \$32,079; completion of a formal Interdepartmental Agreement; improved claims process; furthered reconciliation process between Human Resources and plan eligibility numbers.
- Cost of Audit: \$81,756

Significant Issues

- No formal Interdepartmental Agreement has been executed between the County and the HealthSelect health plan.
- Internal Audit and Human Resources Benefits testwork identified significant exceptions between Total Compensation and health plan membership records.
- A 1% error rate in duplicate claim payments resulted in potential overpayments of \$23,000.





MIHS: Maricopa Long Term Care Program/ALTCS ~ May 2002

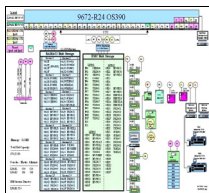
The Arizona Health Care Cost Containment System (AHCCCS) is an independent state agency organized to operate Arizona's Medicaid program. The Arizona Long-Term Care System (ALTCS) was implemented in 1988 under AHCCCS. The program offers long-term care, acute care, Home and Community Based Services (HCBS), behavioral health, and case management services at little or no cost to financially and medically eligible Arizona residents who are aged, blind, disabled, or have a developmental disability. The Maricopa Long Term Care Program was the sole program contractor within Maricopa County until October 2000.

Summary Data

- # of Accepted Recommendations: 11 of 12
- Potential Impact: \$2,104,869
- Cost of Audit: \$143,795

Significant Issues

- Profitability significantly decreased during FY2001.
- Controls need to be strengthened to avoid significant numbers of claim payment errors.
- Programmers have excessive access to files on the computer system.



MVS Operating System ~ December 2001

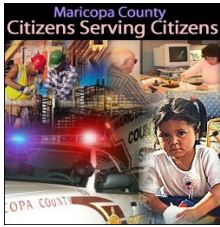
A mainframe is a very large computer capable of supporting hundreds, or even thousands, of users simultaneously. The operating system is the most important program that runs on a mainframe computer. The County's operating system is called MVS, short for Multiple Virtual Storage. The two principal programs that run on the County's mainframe (under the direction of MVS) are the financial and human resource systems.

Summary Data

- # of Accepted Recommendations: 13 of 13
- Impact: Improved security of mainframe operating system, which helps to protect the County financial & payroll systems from unauthorized changes and potential downtime due to errors.
- Cost of Audit: \$70,300

Significant Issues

- The ability to access and change operating system files is not adequately restricted, increasing the risk of unauthorized changes.
- Use of powerful operating system privileges is not properly restricted and may allow unauthorized changes to critical or sensitive system resources.
- The area that supports and maintains the operating system has a number of well-established processes and strong attributes.



Performance Measure Certifications ~ June 2002

Internal Audit developed the Performance Measure Certification (PMC) Program in response to Maricopa County's recent adoption of a countywide performance management system called "Managing For Results" (MfR). Under MfR, departments quantify results, outputs, demand, efficiency and progress toward their outcome goals in specific terms; Internal Audit verifies MfR results.

The PMC program won the GFOA (Government Finance Officers Association) 2002 Award for Excellence and the 2002 National Association of Counties Achievement Award.

Summary Data

- # of Accepted Recommendations: N/A, Informative Report
- Impact: Reassurance to County leaders on reported performance measures.
- Cost of Audit: \$59,522

Significant Issues

We reviewed the following departments: Community Development, Equipment Services, Human Resources, Internal Audit, Medical Examiner, Public Fiduciary, and Stadium District. We reviewed 34 key performance measures in FY 02 and found that 93% of them had been reported accurately. Overall observations: Many departments do not have adequate policies/procedures in place to ensure that collection and reporting of measurement data are reliable and accurate; many departments utilize "output" measures instead of "result" measures for key outcome measurement.



Planning & Development Special Request ~ May 2002

Planning and Development requested Internal Audit to review processes for issuing building permits.

Summary Data

- # of Accepted Recommendations: 7 of 7
- Impact: Improved system enhancements; suggestions for policy/personnel issues.
- Cost of Audit: \$2,916

Significant Issues

Management became aware that certain permit applications appeared to receive inappropriate special treatment through expedited processing. In some cases the permits were approved in less than 24 hours when normal processing time may take as long as three weeks. Internal Audit recommended implementation of policies, procedures and controls that would reduce employee opportunities for conferring special customer treatment.



Public Fiduciary ~ May 2002

In 1973, the Arizona legislature undertook a substantial revision of all laws relating to decedents' estates, guardianships, and protective proceedings. As a result, the Office of the Maricopa County Public Fiduciary (MCPF) was established in 1974 in accordance with Arizona Revised Statutes. MCPF is the

fiduciary of last resort and is referred those cases upon which no attorney, bank trust department, private fiduciary, family member, other person, or corporation is willing or able to act.

Summary Data

- # of Accepted Recommendations: 5 of 5
- Impact: Improved security of data, which includes medical record information.
- Cost of Audit: \$39,879

Significant Issues

- Controls over client cash receipts, expenditures, and asset disposition are effective and transactions are appropriate.
- User access to the CompuTrust system should be more tightly restricted.
- Transactions involving real estate sales and appraisal services should be spread among a greater number of vendors.



Random Cash Counts ~ May 2002

We completed random cash count audits at the following County offices:

- Total Compensation: Employee Benefits Office.
- Human Resources Department: County Store.
- Parks and Recreation Department: Lake Pleasant Park.

Summary Data

- # of Accepted Recommendations: 3 of 3
- Impact: Employee Benefits: strengthened controls over cash receipts function and the development of written procedures for handling cash; County Store: strengthened cash handling and deposit controls.
- Cost of Audit: \$7,803

Significant Issues

We found no significant exceptions to physical counts of cash and checks during our testing procedures. However, certain control weaknesses were identified.





Research & Reporting ~ December 2001

Research & Reporting's (R&R) mission is "to provide survey data services to county managers so they can better manage by using statistically reliable data."

R&R accepts survey requests from County departments and also contracts with other governmental agencies, through Intergovernmental Agreements, to conduct specific surveys.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: Development of written procedures; assurance that software used to tabulate and report survey responses is accurate; documented knowledge that customers are very satisfied.
- Cost of Audit: \$16,783

Significant Issues

- R&R customers are very satisfied with the services received.
- Our independent re-calculation of responses taken from the most recent County Employee Satisfaction Survey rendered the same results as those reported by R&R.
- Four recent Intergovernmental Agreements, between the County and the Arizona Department of Economic Security, are not signed by an appropriate State official as required by law.
- R&R has not developed written work procedures for several important functions. Controls over the department's customer billing procedures also are not adequate.



Single Audit (Community Based Federal Grants) ~ February 2002

Maricopa County receives millions of dollars in federal and state grant funds each year. A significant amount of the grant dollars is passed on, or through, to cities and charitable service organizations within the County. These cities and organizations are known as subrecipients. Internal Audit is charged with ensuring that each of these subrecipients undergoes a Single Audit, as required by statute.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: Compliance with the Single Audit Act and OMB Circular A-133.
- Cost of Audit: \$11,644

Significant Issues

Maricopa County passed through \$15.3 million of federal grant funds to 38 subrecipients, required to undergo Single Audits, in fiscal year (FY) 1999-2000. We reviewed 36 subrecipient Single Audit Reports and found that nine contained a total of 22 findings related to County pass-through dollars. Only two of the findings are material and none directly affect the County or specific County funded programs.



Star Call Center ~ October 2001

The STAR Call Center was established in 1996 through the STAR Board Charter; an agreement developed by the County Treasurer, Assessor, and Recorder. The call center became a separate agency in Fiscal Year (FY) 1997.

During FY 2000, the Clerk of the Superior Court joined this cooperative effort. These elected officials agree that all customer telephone inquiries should be handled by a single call center in order to promote economy, efficiency, and public convenience.

Summary Data

- # of Accepted Recommendations: N/A
- Impact: Assurance that Call Center effectively services public & elected officials.
- Cost of Audit: \$17,347

Significant Issues

- The elected officials' departments are very satisfied with services provided by the STAR Call Center. The call center has established effective controls for incoming calls and service quality.
- Benchmarking activities with eight comparable counties identified only one county (Dade County Florida) that has established a centralized call center similar to the STAR Call Center.
- The STAR Call Center has implemented adequate general information system controls to ensure the integrity and security of its data.



Telecommunications ~ October 2001

The Telecommunications Department was established July 1, 1985 by the Board of Supervisors. Today the department manages the following County operations: Radio and microwave systems including voice, data, and wireless

communications; Cable Communications; and Network Operations Center.

Summary Data

- # of Accepted Recommendations: 15 of 16
- Impact: \$411,125; strengthened controls over cable television licenses, compliance requirements, and revenue receipts; resolved County's debt to the contractor.
- Cost of Audit: \$38,280

Significant Issues

- Six intergovernmental agreements and leases administered by Telecommunications lack sufficient supporting documentation to verify the department's compliance with statute and County policy requirements. These control weaknesses expose the County to legal and financial risk.
- Telecommunications has not established adequate controls over IGA and service contract billings and cable television license payments. Our review found approximately \$53,500 of unbilled charges that are due the County.
- Written change control procedures have not been developed for either the Data Network or Microwave & Radio areas, increasing the risk that unauthorized changes will be made.





Treasurer ~ July 2002

The County Treasurer is an elected official established to enhance the accountability of public monies to the citizens at large. The Treasurer of Maricopa County was established on February 14, 1871 and has the duties of being the ex-officio tax collector. The Treasurer's primary responsibility is to manage the public monies and trust funds of the County and related political subdivisions. Public monies include all monies in the County treasury or coming lawfully into the Treasurer's possession or custody.

Summary Data

- # of Accepted Recommendations: 6 of 7
- Impact: \$2,200; improved security of data, which includes property record information; improved controls over wire transfer and tax apportionment process; identified two parcels to be assessed property taxes for the following fiscal year.
- Cost of Audit: \$83,442

Significant Issues

- The Treasurer's Office effectively and accurately apportions collected taxes. However, internal controls could be improved with the addition of certain detailed procedures.
- Review of Treasurer's Office wire transfers found that general controls are adequate. However, the office has not documented its wire transfer procedures.
- The Treasurer Office Information Technology Division's controls appear to be adequate overall. However, some specific controls do not fully protect systems and data from unauthorized changes or destruction.

Appendix C: Other Projects

■ Advisory Memos

Audit uses advisory memos to alert County leaders and top management to issues that need management attention. These memos are also issued in response to special project requests.

- Bilingual Pay ~ November 14, 2001
- Financial Trends ~ November 19, 2001
- MIHS Financial Trends #1 ~ November 20, 2001
- MIHS Financial Trends #2 ~ January 7, 2002
- Medical Center Net Income ~ March 14, 2002

■ Board of Supervisors Progress Reports ~ Monthly

Internal Audit's charter requires us to update Board members on our activities monthly.

■ Management Control Bulletins ("Got Controls") ~ Ongoing

We created a one-page information bulletin entitled "Got Controls?" to communicate important control issues to County executives, managers, and employees. These bulletins feature common internal control issues useful to a wide audience. The bulletins issued for FY2002 are: disaster recovery planning, computer systems life cycle, budget controls, P-card, expenditure controls, and accounts payable.

■ CSA Cash Handling Classes ~ August & September 2001, March & May 2002

Fifty-one County employees attended Internal Audit's Control Self Assessment (CSA) Cash Handling Classes and improved their understanding of good cash handling practices.

■ CSA Contract Management Class ~ February 2002

Thirteen County employees from twelve County departments improved their contract management and monitoring skills by attending Internal Audit's Control Self Assessment (CSA) Contract Management Class.

■ Corporate Review Committee ~ Ongoing

Internal Audit participates on this committee which reviews departments' strategic plans and provides recommendations to the departments and to the Board of Supervisors.

■ Electronic Government Council ~ Ongoing

Internal Audit participates on a task force that provides the CIO and Executive Management input on future County direction in EGov applications, website development, and interfacing with state and other jurisdictions.

■ Gila Bend Justice Court Special Request ~ March 2002

The Justice Court Administrator requested Internal Audit to calculate an equitable division of monies that were being disputed between the Town of Gila Bend and the Gila Bend Justice Court.

■ ICJIS SDLC Development ~ February 2002

On-going monitoring over the Integrated Criminal Justice Information System (ICJIS) project. Areas of review and monitoring include: budgets, project management, time schedules (deadlines), and security. Information is reported to the Board and Presiding Judge.

■ Juvenile Probation Accounting Review ~ October 2001

The Minimum Accounting Standards (MAS) review is an agreed-upon procedures engagement. An independent accountant performs standard audit procedures set forth by the Administrative Office of the Arizona Supreme Court. The purpose of the engagement is to ensure that Maricopa County courts maintain effective internal control procedures over financial accounting and reporting systems.

■ Risk Assessment ~ May 2002

The Countywide risk assessment is a necessary planning tool that helps determine high, low, and medium risk areas that should be audited and reviewed. This tool is a precursor to the audit plan.

■ Service Efforts & Accomplishments Prototype Report (SEA) ~ February 2002

The goal was to develop a prototype SEA report in order to assess the feasibility of producing an SEA report. The CAO, DCAO, Budget Director, PIO, and GASB SEA Research personnel reviewed the prototype and gave positive feedback. The SEA report is part of the MfR Cycle and will eventually be the vehicle to report performance measures to County leaders, top management, and citizens.

■ Travel Policy Review ~ March 2002

Internal Audit staff reviewed and gave feedback on the revised County Travel Policy.

Appendix D: Single Audit Reviews

As mandated by OMB Circular A-133, we reviewed subrecipient Single Audit Reports for FY 1999-2000 & CY 2000.

Maricopa County passed through \$15.3 million of federal grant funds to 38 subrecipients, required to undergo a Single Audit, in FY 1999-2000/CY 2000. We reviewed 36 subrecipient Single Audit Reports and found that nine contained a total of 22 findings related to County pass-through dollars. Only two of the findings are material and indirectly affect the County or specific County programs. Internal Audit will follow up on the two overdue Single Audit Reports. The subrecipients are:

- Pass Through Agency ~ Maricopa County Department of Community Development

City of Avondale, City of Chandler, City of El Mirage, City of Glendale, City of Goodyear, City of Mesa, City of Peoria, City of Scottsdale, City of Surprise (audit report not yet received), City of Tempe, City of Tolleson, Community Services of Arizona, Foundation for Senior Living (FY99 & FY00), Homeward Bound, Housing for Mesa, Town of Gila Bend, Town of Gilbert, and Town of Guadalupe.

- Pass Through Agency ~ Maricopa County Department of Environmental Services

Regional Public Transportation Authority

- Pass Through Agency ~ Maricopa County Department of Human Services

American Red Cross, Catholic Social Services, City of Avondale, City of El Mirage, City of Glendale, City of Tolleson, Community Services of Arizona, Foundation for Senior Living (FY99 & FY00), Maricopa County Community College District, Prehab of AZ, Rapport, Regional Public Transportation Authority, Save the Family, Southwest Human Development, Tempe Community Action Agency, Town of Gila Bend, and Town of Guadalupe.

- Pass Through Agency ~ Maricopa County Juvenile Probation

City of Phoenix

- Pass Through Agency ~ Maricopa Integrated Health System

Area Agency on Aging

- Pass Through Agency ~ Maricopa County Department of Public Health

Advocates for the Disabled, Aids Project Arizona, Area Agency on Aging, Catholic Social Services, Chicanos Por La Causa, Clinic Adelante, Hemophilia Association (FY99 & FY00), Mountain Park Health Center (Nov 00), and Phoenix Body Positive.

- Pass Through Agency ~ Maricopa County Sheriff's Office

City of Tolleson

Appendix E:

Internal Audit Department Profile

Definition

Internal auditing is an independent, objective assurance and consulting activity that adds value and improves operations. Internal auditing helps an organization reach objectives by bringing a systematic, disciplined approach to improve the effectiveness of risk management, control, and governance processes.

Mission

The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

Vision

To facilitate positive change throughout County operations while ensuring that public resources are used for their intended purpose.

History

The Board of Supervisors appointed the first County Auditor in 1978 and established an internal audit function. In 1994, the Board of Supervisors created a Citizen's Audit Advisory Committee comprised of private citizens and County officials. (See Appendix F for charter.) In 1997, the Board of Supervisors formalized the County's internal audit function by adopting a department charter. (See Appendix G for charter.)

Citizen's Audit Advisory Committee (Audit Committee)

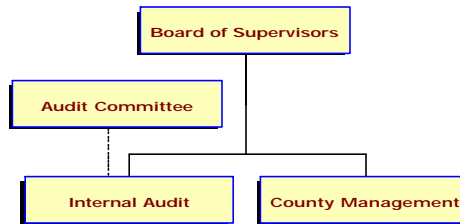
The Board Appointed Citizens' Audit Advisory Committee supports further strengthening of the County's Internal Audit Department. This committee, comprised of accounting and business professionals, actively engages in analyzing risk throughout the County and making recommendations. This committee is an important link between the Board of Supervisors and the County's auditors, both internal and external. The Maricopa County Citizen's Audit Advisory Committee meets regularly to review and comment on audit reports, County financial statements, and other audit information (audit plan, special requests, etc.).

Organizational Independence

Auditors should be removed from organizational and political pressures to ensure objectivity. As our charter designates, the Maricopa County Internal Audit Department reports directly to an elected board of supervisors thereby establishing an effective level of independence from management. This reporting structure provides the Board of Supervisors with a direct line of communication to Internal Audit and provides assurance that County officials cannot influence the nature or scope of audit work performed.

Government Auditing Standards support locating internal audit departments' outside the management function in order to encourage independence. Routine meetings with an independent audit committee further enhance independence. The County Auditor also meets with an oversight committee comprised of the County Administrative Officer and two Board members.

Reporting Structure of the Internal Audit Department



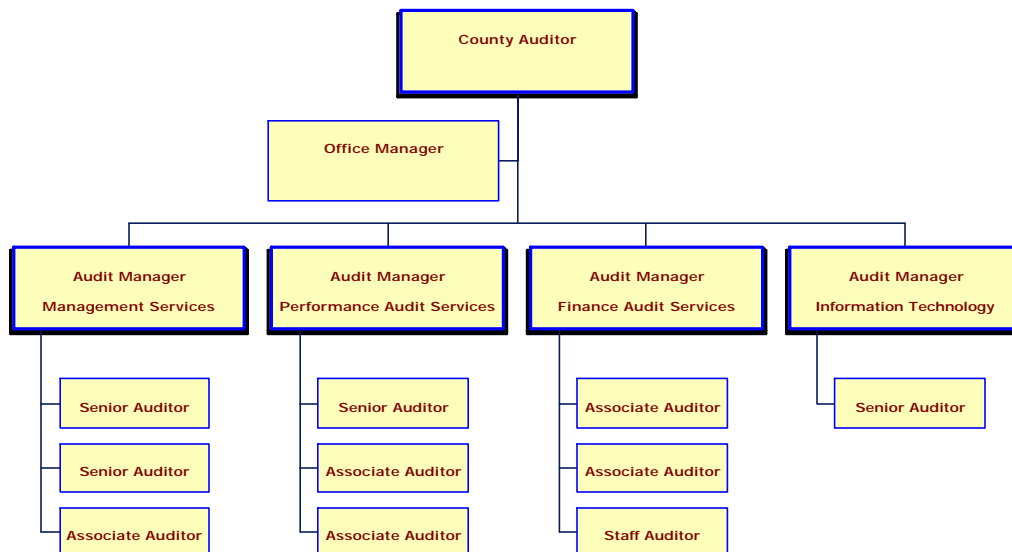
Resources

A fully staffed and professionally competent internal audit department provides value-added services to the County. Each year Internal Audit analyzes and adapts its resources to meet upcoming County auditing and consulting needs. To provide flexibility, the audit staff has education and experience in various audit areas: finance, performance, information systems, and management services. Each audit is performed by a team that collectively possesses the necessary knowledge and skills to fit the assignment.

Government operations are inherently complex; certain functions cannot be properly reviewed without specialized expertise. Hiring a wide variety of staff specialists, however, would not be cost-beneficial. While we have invested in qualified internal staff, we have also reserved resources for specialized contractors; \$370,000 was budgeted for this purpose in FY2001-2002. This partnership (called “co-sourcing”) provides the County with the collective expertise required by Government Auditing Standards at an affordable price.

The County’s Health System is large (approximately 1/3 of the County’s budget), very complex, and affects many peoples' lives. This high level of risk to the County makes the Health System’s activities worthy of increased scrutiny. We began performing health care audits in fiscal year 1997-1998. In fiscal year 1999-2000, we began outsourcing the health system audits due to the highly specialized expertise required.

FY 2002 Internal Audit Department Organizational Chart



Risk Assessment

Effective internal auditing is based upon systematically reviewing an organization's operations at intervals commensurate with associated risks. The annual risk-review process produces an audit plan that maximizes audit coverage and minimizes risk. Auditing every County activity on a regular basis would not be cost efficient; professional judgment ensures resources are focused on high-risk areas.

Professional Internal Audit Staff

Our auditors have extensive knowledge of auditing methods and techniques plus specialized training in computers and accounting. (See Appendix A for individual biographies.) Each auditor is responsible for maintaining Government Auditing Standards requirements of 80 continuing education hours every two years; 24 of those hours are directly related to government operations. In order to meet this education requirement and share knowledge, Internal Audit staff members conducted four in-house training classes in FY02 at a cost savings ranging from \$1,045 to \$2,090 (assuming \$10 to \$20 per credit hour).

Who Audits the Auditors? (Peer Review)

An independent audit firm conducts a peer review of Internal Audit every 3 years, as required by national Government Auditing standards. The Maricopa County Citizens' Audit Advisory Committee oversees these reviews. The FY 2000 review by a local firm showed no findings.

Appendix F:

Charter of the Maricopa County Citizen's Audit Advisory Committee



The committee's primary function is to assist the board of supervisors in fulfilling its oversight responsibilities. The committee accomplishes this function by reviewing the county's financial information, the established systems of internal controls, and the audit process.

In meeting its responsibilities, the committee shall perform the duties outlined below.

1. Provide an open avenue of communication between the county auditor, the auditor general, and the board of supervisors.
2. Review the committee's charter annually and seek board approval on any recommended changes.
3. Inquire of management, the county auditor, and the auditor general about significant risks or exposures and assess the steps management has taken to minimize such risks to the county.
4. Consider and review the audit scope and plan of the county auditor, and receive regular updates on the auditor general's county audit activities.
5. Review with the county auditor and the auditor general the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts, and the effective use of all audit resources including external auditors and consulting activities.
6. Consider and review with the county auditor and the auditor general:
 - a. The adequacy of the county's internal controls including computerized information system controls and security.
 - b. Any related significant findings and recommendations of the auditor general and the county auditor together with management's responses thereto.
7. At the completion of the auditor general's annual examination, the committee shall review the following:
 - a. The county's annual financial statements and related footnotes.
 - b. The auditor general's audit of the financial statements and report thereon.
 - c. Any serious difficulties or other matters related to the conduct of the audit that need to be communicated to the committee.

Charter ~ Page Two



8. Consider and review with management and the county auditor:
 - a. Significant audit findings during the year and management's responses thereto.
 - b. Any difficulties encountered during their audits, including any restrictions on the scope of their work or access to required information.
 - c. Any changes required in the planned scope of their audit plan.
 - d. The internal audit department's budget and staffing.
 - e. The internal audit department's charter.
 - f. The internal audit department's overall performance and its compliance with accepted standards for the professional practice of internal auditing.
9. Report committee actions to the board of supervisors with such recommendations as the committee may deem appropriate.
10. Prepare a letter for inclusion in the annual report that describes the committee's composition and responsibilities, and how they were discharged.
11. The committee shall meet at least four times per year or more frequently as circumstances require. The committee may ask members of management or others to attend the meetings and provide pertinent information as necessary. Committee meetings are subject to the Open Meeting Law (A.R.S. § 38-431).
12. The committee shall perform such other functions as assigned by the board of supervisors.

Committee Composition and Terms

The membership of the committee shall consist of five voting members and three non-voting members. The voting members shall be board of supervisor appointees from the public and shall serve two-year terms. The non-voting members shall be the county's chief financial officer, the county attorney, the auditor general, or their designees. The chairman of the board of supervisors shall appoint a committee chairman from the voting members. The committee chairman shall serve a one-year term.

Member Qualifications

Committee members must have an understanding of financial reporting, accounting, or auditing. This understanding can be demonstrated through educational degrees (BS, MBA, PhD) and professional certifications (CPA, CMA, CIA), or through experience in managing an organization of more than 25 employees or \$20M in revenues. Committee members should be familiar with local government operations and should have sufficient time to effectively perform the duties listed herein.

Adopted by the Board of Supervisors — 3/26/97

Last Amended — 6/26/02

Appendix G:

Internal Audit Department Charter

Introduction

The Maricopa County Board of Supervisors hereby establishes the Maricopa County Internal Audit Department to provide the Board of Supervisors with an independent assessment of the County's system of internal controls. This assessment will be carried out by Internal Audit through financial, performance, and information system audits and reviews.



County management has primary responsibility for establishing and maintaining a sufficient system of internal controls. Internal Audit evaluates the adequacy of the internal control environment, the operating environment, related accounting, financial, and operational policies, and reports the results accordingly.

Authority

Internal Audit is established by the powers granted to the Board of Supervisors in A.R.S. § 11-251. The Board is authorized to supervise the official conduct of all County officers, to see that such officers faithfully perform their duties and present their books and accounts for inspection (A.R.S. § 11-251.1). The Board is also authorized to perform all other acts and things necessary to fully discharge its duties (A.R.S. § 11-251.30).

Internal Audit shall report directly to the Board of Supervisors, with an advisory reporting relationship to the Board-Appointed Audit Committee. In Addition, the County Auditor shall meet regularly with an oversight committee comprised of the County Administrative Officer and two Board members appointed by the Board Chairman.

While conducting approved audit work, Internal Audit shall have access (except where restricted by legal privilege) to all County facilities, books, records, information, and personnel.

Premise and Objectives

Internal Audit's basic premise is that County resources are to be applied efficiently, economically, and effectively to achieve the purposes for which the resources were furnished. This premise is incorporated in the following four objectives:

A. Compliance with Laws and Regulations

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure identification of and compliance with applicable laws and regulations.

B. Effective Program Operations

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that programs meet their goals and objectives.

Charter ~ Page Two

C. Validity and Reliability of Data

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that valid and reliable data are obtained, maintained, and fairly disclosed.

D. Safeguarding of Resources

Those entrusted with County resources are responsible for establishing and maintaining effective controls to ensure that resources are safeguarded against waste, loss, and misuse.

Independence

Internal Audit shall have no direct responsibility for, or authority over, any of the activities, functions, or tasks reviewed by the department. Accordingly, Internal Audit does not develop or write policies or procedures that they may later be called upon to evaluate. They may review draft materials, developed by management, for propriety and/or completeness. However, ownership of, and responsibility for these materials remains with management, not Internal Audit.

Audit Standards and Ethics

All audit work shall meet the professional standards and codes of ethics promulgated by the Institute of Internal Auditors, the Information Systems Audit and Control Association, and the Comptroller General of the United States (Government Auditing Standards). Each member of the department is expected to consistently demonstrate high standards of conduct and ethics as well as appropriate judgment, independence, and discretion. Members shall maintain a professional image and protect auditee confidences and confidential information.

Audit Planning

The County Auditor shall prepare an annual audit plan for review by the Board-Appointed Audit Committee and approval by the Board of Supervisors. The selected audit areas will be the result of a formal risk assessment process. Any additions, deletions, or deferrals to the approved audit plan must be approved by the Board of Supervisors.

Follow-Up

Internal Audit will perform follow-up procedures on the findings of each report issued by the department. Such procedures will be formally documented and shall occur at least on a quarterly basis.

Adopted by the Board of Supervisors – 6/11/97

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